

Message Text

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PAGE 01 BUENOS 05313 120149Z
ACTION OPR-02

INFO OCT-01 ARA-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08
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FM AMEMBASSY BUENOS AIRES
TO SECSTATE WASHDC 6456

UNCLAS BUENOS AIRES 5313

E.O. 11652 N/A

TAGS ALOW, EFIN, AR

SUBJECT ARGENTINA: INFLATION IN JUNE

1. THE CONSUMER PRICE INDEX (CPI) ROSE 6.5 PERCENT IN JUNE, BRINGING THE TOTAL INCREASE FOR THE FIRST SIX MONTHS OF 1978 TO 69.5 PERCENT AND FOR THE PRECEDING YEAR TO 188.7 PERCENT. THE BREAKDOWN OF THE CPI INCREASES BY SECTOR IN JUNE ARE AS FOLLOWS: FOOD -- 5.9; CLOTHING -- 4.4; HOUSING, FUEL, AND ELECTRICITY -- 5.2; HOUSEHOLD FURNISHINGS AND OPERATIONS -- 6.4; MEDICAL CARE -- 10.1; TRANSPORTATION AND COMMUNICATIONS -- 5.6; RECREATION AND EDUCATION -- 10.4; AND MISCELLANEOUS -- 9.5.

2. THE WHOLESALE PRICE INDEX (WPI) INCREASED 4.8 PERCENT IN JUNE, BRINGING THE TOTAL INCREASE FOR THE FIRST SIX MONTHS OF 1978 TO 57.7 PERCENT AND FOR THE PAST 12 MONTHS TO 156.9 PERCENT. THE WHOLESALE PRICES OF IMPORTED PRODUCTS ROSE 6 PERCENT DESPITE THE VERY LOW (1.6 PERCENT) RATE OF DEVALUATION IN JUNE -- AN INDICATION THAT IMPORTERS OF MIDDLEMEN DID NOT PASS ON THE BENEFITS OF THE LOW RATE OF DEVALUATION TO THEIR CLIENTS. BY CONTRAST, WHOLESALE PRICES OF DOMESTIC PRODUCTS ROSE ONLY 4.7 PERCENT.

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3. COMMENT: THE INFLATION RESULTS FOR JUNE HAVE BEEN GREETED WITH RELIEF. EVERYONE HAD BEEN EXPECTING A MUCH HIGHER RATE OF INFLATION AS A RESULT OF THE LARGE NUMBER OF FOREIGNERS WHO CAME TO ARGENTINA IN JUNE TO SEE THE WORLD SOCCER CHAMPIONSHIP. THESE FOREIGNERS PROVED A DISAPPOINTMENT TO THE COMMERCIAL SECTOR, ACCORDING TO THE PRESS, BECAUSE THEY FOUND PRICES IN

ARGENTINA SO HIGH THAT THEY PURCHASED VERY LITTLE.
OPTIMISM ON FURTHER PROGRESS REMAINS GUARDED BECAUSE
INFLATION IN THE FIRST SEMESTER OF 1978 IS STILL
SUBSTANTIALLY HIGHER THAN DURING THE SAME PERIOD IN 1977.
IN THE MEANTIME, AMERICAN PERSONNEL ASSIGNED TO BUENOS
AIRES ARE BEARING ALMOST THE FULL BRUNT OF PRICE
INCREASES NOW THAT THE RATE OF DEVALUATION IS LAGGING
FAR BEHIND THE RATE OF INFLATION. IN THE MAY/JUNE
PERIOD, FOR EXAMPLE, THE CPI ROSE 15.8 PERCENT WHILE
THE DEVALUATION OF THE PESO IN RELATION TO THE DOLLAR
WAS 2.9 PERCENT. EMBASSY ESTIMATES THAT THE PURCHASING
POWER OF THE DOLLAR DECLINED 23 PERCENT DURING THE FIRST
SIX MONTHS OF 1978.

HIGGINS

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